

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03
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TO SECSTATE WASHDC 4154
INFO AMEMBASSY COLOMBO
AMEMBASSY DACCA
AMEMBASSY KABUL
AMEMBASSY KATHMANDU
AMEMBASSY ISLAMABAD
AMCONSUL BOMBAY
AMCONSUL CALCUTTA
AMCONSUL MADRAS

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PASS TREASURY

EO 11652: NA
TAGS: ECON, EGEN, IN
SUBJ: ECONOMIC SURVEY 1976-77

REF: NEW DELHI 8176

SUMMARY. THE MINISTRY OF FINANCE'S 1976-77 ECONOMIC
SURVEY, SUBMITTED TOPARLIAMENT JUST PRIOR TO THE BUDGET,
CONTINUES IN THE TRADITION OF PAST EFFORTS AS A SOLID
AND RELATIVELY IMPARTIAL ANALYSIS OF INDIA'S RECENT ECONOMIC
PERFORMANCE. IT POINTS OUT SHORT TERM PROBLEMS (DECLINE
IN AGRICULTURAL PRODUCTION LAST FISCAL YEAR,INFLATIONARY
TENDENCIES) AND CALLS FOR CORRECTIVE ACTION TO SOLVE
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LONGER TERM STRUCTUAL PROBLEMS (SUCH AS LOW AGRICULTURAL
PRODUCTIVITY, INSUFFICIENT INDUSTRIAL INVESTMENT AND
INCREASING UNEMPLOYMENT). WE AGREE WITH THE SURVEY THAT
MORE EMPHASIS SHOULD BE PLACED ON THE AGRICULTURAL SECTOR
(INCLUDING LAND REFORM), SMALL SCALE INDUSTRIES AND
EMPLOYMENT GENERATION, BUT THAT IMPLEMENTATION OF THESE
GOALS IN POLITICALLY AND ADMINISTRATIVELY DIFFICULT.

END SUMMARY.

1. INDIAN ECONOMY IN 1976-77. ACCORDING TO THE ECONOMIC SURVEY, THE PERFORMANCE OF THE INDIAN ECONOMY WAS UNEVEN LAST FISCAL YEAR. GNP INCREASED BY LESS THAN TWO PERCENT; AGRICULTURAL PRODUCTION DECLINED BY 5-6 PERCENT, PRIMARILY BECAUSE OF AN EIGHT PERCENT DROP IN FOODGRAIN PRODUCTION TO AROUND 111 MILLION MT; AND INDUSTRIAL OUTPUT GREW SUBSTANTIALLY BY AN ESTIMATED TEN PERCENT (CONSIDERABLY HIGHER IF SMALL SCALE SECTOR IS INCLUDED). THE SURVEY CLAIMS THAT THE MOST IMPORTANT FEATURE OF THE ECONOMIC SITUATION IN 1976-77 WAS THE REVERSAL OF THE DECLINING TENDENCY IN PRICES.

2. AGRICULTURE. THE SURVEY NOTES THAT THE GROWTH RATE IN THE AGRICULTURAL SECTOR HAS BEEN LOWER IN THE 1970S THAN IN THE 1960S BECAUSE OF A DECELERATION IN THE RATE OF GROWTH OF ACREAGE AND YIELDS. IT RECOMMENDS THAT THE HIGHEST PRIORITY BE GIVEN TO INCREASING THE AMOUNT OF IRRIGATED LAND, AS WELL AS BETTER UTILIZATION OF EXISTING IRRIGATION AND IMPROVED WATER MANAGEMENT THROUGH A PROGRAM OF INTEGRATED RURAL DEVELOPMENT OF COMMAND AREAS. THE SURVEY MAKES A STRONG PLEA FOR LAND CONSOLIDATION, BETTER SECURITY OF LAND TENURE, MUCH MORE RAPID ACQUISITION AND DISTRIBUTION OF SURPLUS LAND TO THE LANDLESS, AND MORE VIGOROUS IMPLEMENTATION IN GENERAL OF AGRARIAN REFORM. IT ALSO CALLS FOR INCREASED INSTITUTIONAL CREDIT AND EMPLOYMENT GENERATION IN RURAL AREAS.

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3. INDUSTRIAL SCENE. THE SURVEY NOTES THAT THE SMALL SCALE SECTOR DID VERY WELL IN 1976 (PERHAPS A GROWTH IN OUTPUT OF 20-25 PERCENT). BUT THAT IT SHOULD BE ENCOURAGED FURTHER BECAUSE OF ITS HIGH OUTPUT TO INVESTMENT RATIO AND ITS CAPACITY TO GENERATE JOBS. DURING LAST FISCAL YEAR INDUSTRIAL CAPACITY UTILIZATION IMPROVED GENERALLY, DESPITE THE PRESENCE OF SOME SICK INDUSTRIES. ON THE OTHER HAND, THE UNEMPLOYMENT SITUATION CONTINUED TO DETERIORATE. THE SURVEY BELIEVES THAT, WHILE PRIVATE SECTOR INVESTMENT PICKED UP SOMEWHAT LAST YEAR, IT WAS NOT SUFFICIENT TO SUSTAIN A RAPID RATE OF INDUSTRIAL GROWTH. THE INDUSTRIAL OUTLOOK FOR 1977-78 IS UNCERTAIN BECAUSE OF A DETERIORATING POWER SITUATION, INADEQUATE RURAL PURCHASING POWER, AND THE NEED TO ADD TO EXISTING CAPACITY INSTEAD OF USING PREVIOUSLY UNUTILIZED CAPACITY.

(THE SURVEY DOES NOT MENTION THE PROBLEM OF GROWING LABOR UNREST.)

4. PRICES, MONETARY AND FISCAL POLICIES. THE SURVEY DISCUSSES THE 12 PERCENT INCREASE IN WHOLESALE PRICES IN 1976-77. THE 17 PERCENT INCREASE IN THE MONEY SUPPLY, PRIMARILY DUE TO THE INCREASE IN FOREIGN EXCHANGE ASSETS, REFLECTED A BASIC IMBALANCE IN THE SLOWLY GROWING ECONOMY LAST YEAR. THE SURVEY IS WORRIED THAT THE LAGGED EFFECTS OF THE INCREASE IN THE MONEY SUPPLY WILL BE FELT IN CONTINUED INFLATIONARY PRESSURES THIS FISCAL YEAR. IT IS CRITICAL OF THE FAILURE OF POLICY MEASURES TO CONTAIN THE PRICE RISES AND RECOMMENDS BETTER DISTRIBUTION OF FOOD BUFFER STOCKS BY EXTENDING THE PUBLIC DISTRIBUTION SYSTEM TO RURAL AREAS, MORE ADVANCE PLANNING IN IMPORTING COMMODITIES IN POTENTIALLY SHORT SUPPLY, AND AN EXPANSION OF THE CONSUMER COOPERATIVE MOVEMENT.. HOWEVER, THE REPORT NOTES THE DILEMMA FACING MONETARY AUTHORITIES: THE NEED TO CONTAIN CREDIT EXPANSION WITHOUT HURTING PRODUCTION. THE SURVEY CALLS LIMITED OFFICIAL USE

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FOR A REVIEW OF DIRECT TAXATION TO MAKE IT MORE RESPONSIVE TO CHANGES IN NATIONAL INCOME AND TO PROMOTE SAVINGS. IT STRESSES THE NEED FOR IMPROVEMENT OF THE FINANCIAL PERFORMANCE OF PUBLIC SECTOR ORGANIZATIONS, THE CENTRAL GOVERNMENT AND STATE GOVERNMENTS (E.G. THE NEED TO RAISE STATE WATER AND ELECTRICITY RATES) SO THAT THE LEVEL OF PUBLIC SECTOR SAVINGS CAN BE RAISED. RESOURCES MOBILIZED FROM THE PUBLIC SHOULD GO MORE INTO INVESTMENT THAN CONSUMPTION.

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INFO AMEMBASSY COLOMBO
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PASS TREASURY

5. BALANCE OF PAYMENTS. THE SURVEY NOTES THAT FOREIGN TRADE WAS ALMOST IN BALANCE LAST FISCAL YEAR, THAT A SUBSTANTIAL TRADE DEFICIT MAY BE EXPECTED IN 1977-78 BECAUSE OF INCREASED IMPORTS, BUT THAT THE FINANCING OF THIS DEFICIT WILL PROBABLY NOT POSE A MAJOR PROBLEM. IT REVIEWS THE NOW-FAMILIAR REASONS FOR INDIA'S PRESENT RECORD LEVEL OF FOREIGN EXCHANGE RESERVES, BUT STATES THAT THIS RESULT HAS BEEN ACHIEVED PARTLY AT THE COST OF INVESTMENT FOR GROWTH. THE SURVEY IS CRITICAL THAT FOREIGN EXCHANGE RESERVES HAVE NOT BEEN YET USED PROPERLY IN AN ATTEMPT TO PROMOTE ECONOMIC GROWTH AND ACHIEVE PRICE STABILITY.

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6. COMMENT. WHILE OUR ESTIMATES OF 1976-77 ECONOMIC GROWTH ARE SLIGHTLY LOWER THAN THE SURVEY'S (REFTEL), WE HAVE NO SIGNIFICANT DISAGREEMENT WITH THE GOVERNMENT'S ASSESSMENT. THE SURVEY RIGHTLY POINTS OUT THE NEED TO INCREASE AGRICULTURAL PRODUCTIVITY, TO DEVELOP SMALL SCALE INDUSTRIES, AND TO GENERATE MORE EMPLOYMENT IN ORDER TO RAISE THE LEVEL OF ECONOMIC GROWTH AND LESSEN

INCOME INEQUALITIES. IT HAS SOME USEFUL SUGGESTIONS ON LAND AND TAX REFORM. WE QUESTION, HOWEVER, ITS ACCEPTANCE OF THE CONTINUATION OF THE IMPORT SUBSTITUTION POLICY. (THE WORLD BANK RECOMMENDS IN ITS RECENT REPORT ON INDIA'S EXPORTS THAT THE GOVERNMENT PROMOTE SPECIALIZATION OF INDUSTRIAL OUTPUT AND OF EXPORTS IN ORDER TO TAKE ADVANTAGE OF THE COUNTRY'S COMPARATIVE ADVANTAGE AND TO IMPROVE ECONOMIC EFFICIENCY.) SEVERAL EDITORIALS HAVE CRITICIZED THE SURVEY FOR BEING UNIMAGINATIVE AND NOT PRESENTING ANY NEW IDEAS. THIS CRITICISM APPEARS MISPLACED. INDIA HAS NEVER LACKED EITHER. IT MIGHT MORE PROPERLY BE SAID THAT THE NEED IS FOR THE POLITICAL WILL AND THE ADMINISTRATIVE CAPACITY TO IMPLE-

MENT IDEAS IN AN EFFECTIVE WAY AND TO MAKE SOME VERY
DIFFICULT DECISIONS (E.G. AGRARIAN REFORM). EVEN IF THE
NEW GOVERNMENT WERE INCLINED TO BE ADVENTURESOME (IT
HAS BEEN RATHER CAUTIOUS SO FAR), THE SCOPE OF THE PRO-
BLEMS ALMOST DICTATE THAT ECONOMIC CHANGES HERE WILL
NECESSARILY TAKE CONSIDERABLE TIME TO CONSUMMATE.
GOHEEN

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